Montecarlo Bangalore Chennai Expressway P3P1 Private Limited (Revised)

January 17, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	538.73	CARE A; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Montecarlo Bangalore Chennai Expressway P3P1 Private Limited (MBCEPL) factors in the inherent strengths of hybrid annuity model (HAM) based road projects such as (i) low project funding risk with inflation-indexed annuity to be received for construction of the stretch and favourable clauses introduced in the concession agreement (CA) to de-bottleneck project execution challenges; (ii) lower post-implementation risk on account of inflation-indexed annuity to be received for operations and maintenance (O&M) of the road and (iii) receipt of MCLR linked interest on annuity. However, unlike the clauses contained in the CA, delay in de-scoping of the unavailable project land has been witnessed in many of the ongoing HAM road projects.

The rating of MBCEPL also derives comfort from the wide experience of the ultimate sponsor and engineering, procurement and construction (EPC) contractor i.e. Montecarlo Limited (MCL) in executing large sized EPC projects. Furthermore, the rating takes into account credit quality of the project completion milestone payments and underlying annuity receivables from National Highway Authority of India (NHAI; rated 'CARE AAA; Stable') both during construction and post commencement of operations, presence of defined cashflow mechanism by way of escrow arrangement, proposed liquidity support mechanisms such as the envisaged creation of debt service reserve account (DSRA) and major maintenance reserve account (MMRA) post commencement of operations, adequate debt coverage indicators along with undertaking extended by the sponsor to fund any shortfall during construction period as well as operational period.

The above rating strengths are, however, tempered by the inherent construction risk, inherent interest rate risk as well as operations and maintenance (O&M) risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Completion of project within scheduled project completion date.
- Establishment of track record of timely receipt of annuities post commencement of operations.

Negative factors

- Significant delay in the project progress impacting commercial operations date (COD) beyond 90 days from SCOD scheduled commercial operations date (SCOD).
- Deterioration in DSCR below 1.20 times due to increase in O&M expenses or annuity deductions, if any.
- Non-receipt of timely need-based support from the sponsor during construction and operational period.
- Deterioration in the credit profile of sponsor- MCL or counter party (i.e. NHAI).

Analytical approach: Standalone while factoring execution track record of EPC contractor along with sponsor support undertakings extended by MCL.

Key strengths

Favourable clauses in model CA of HAM projects to address execution challenges: The model CA of HAM projects include favourable clauses such as achievement of at least 80% RoW before declaring appointed date for the project and provision for granting deemed completion of the project in case 100% of the work is completed on the RoW which becomes available to it within 180 days of the appointed date. These clauses were expected to address some of the issues which were plaguing the sector primarily on account of delay in land acquisition during construction phase. However, pending de-scoping of unavailable land despite significant time having lapsed from the appointed date has been affecting the project progress in some of the projects awarded under this model which has emerged as a cause of concern from the credit perspective for the industry. Hence, timely de-scoping of unavailable project land within 180 days from appointed date as per terms of CA will be a key monitorable for HAM-based road projects.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Low funding risk and permitted price escalation: HAM model entails lower sponsor contribution during construction period considering 40% construction support from NHAI and availability of 10% mobilization advance on bid project cost (BPC) at 'average one-year MCLR of top 5 scheduled banks'. Furthermore, BPC and O&M cost shall be inflation indexed (through a Price Index Multiple [PIM]) which is the weighted average of Wholesale Price Index (WPI) and Consumer Price Index (CPI) in the ratio of 70:30. Inflation indexed BPC protects the developers against price escalation to an extent.

Assured cash flow due to annuity nature of the revenue stream linked to inflation indexed O&M annuity and MCLR linked interest annuity: During operational phase, cash flow is assured in the form of annuity payments from NHAI on semi-annual basis covering 60% of the project completion cost along with interest at 'Average one-year MCLR of top 5 scheduled banks plus 1.25%' on reducing balance and inflation indexed O&M annuity. However, non-linear transmission of MCLR over lending rate is reduced to a large extent and is not expected to impact the company's debt coverage indicators.

Low counterparty credit risk: Incorporated by the Government of India (GoI) under an Act of the Parliament as a statutory body, NHAI functions as the nodal agency for development, maintenance and management of the national highways in the country. The outlook on NHAI reflects the outlook on the sovereign, whose direct and indirect support continues to be the key rating driver.

Demonstrated track record of MCL in executing road projects: MCL, established by Mr. Kanubhai Patel in 1995, has over three decades of experience in undertaking large scale infrastructure projects. MCL has presence in diversified areas of construction business including highways, energy infrastructure, transmission & distribution (T&D), mining, irrigation, etc. MCL has pan India presence in more than 14 states and currently has 10 HAM projects under its portfolio.
MBCEPL has also entered into fixed price EPC contract with MCL for execution of the project. Further, MCL as a sponsor, shall also extend undertaking in favour of MBCEPL to fund cost overrun over and above budgeted cost and shortfall in debt servicing in case of non-payment/delayed payment/shortfall in payment of annuity or termination of the CA.

Key weaknesses

Inherent project execution risk: MBCEPL is exposed to inherent construction risk attached to large sized BOT road projects. The project has received appointed date on May 30, 2022 and the project stretch is to be constructed with flexible pavement. The project is at nascent stage of operations and has achieved physical progress of 10.21% till October 31, 2022. Furthermore, demonstrated execution capability of MCL as an EPC contractor in executing large sized road projects is expected to mitigate the execution risk to an extent.

Inherent O&M risk: Although inflation indexed O&M annuity partly mitigates O&M risk, developers would still face the risk of sharp increase in the O&M cost due to more than envisaged wear and tear. The project stretch consists of flexible (bituminous) pavement which is prone to higher O&M cost compared to rigid pavement. However, MBCEPL shall enter into fixed price and fixed time O&M contract with the sponsor whereby MCL shall be responsible for the maintenance of the stretch, which provides some comfort. Also, MBCEPL is also required to maintain major maintenance reserve account (MMRA) out of the project cash flow to conduct major maintenance of the project stretch.

Inherent interest rate risk: MBCEPL is exposed to inherent interest rate risk. The project debt is sanctioned with a floating MCLR linked rate of interest which is reset periodically. The risk is mitigated to a large extent on account of receipt of the interest annuity at the applicable 'average one-year MCLR of top 5 scheduled banks + 125 bps' however, MBCEPL remains exposed to interest rate risk owing to the timing difference between change in the MCLR rate & lending rate.

Liquidity: Adequate

MBCEPL's liquidity is underpinned from the fact that it has access to timely need-based support from MCL. Furthermore, MCL shall extend undertaking to fund any cost over-run during construction period and bring in funds in case of delay in release of construction grant. Also, as per the terms of sanction of the project debt, MBCEPL shall maintain DSRA of an amount equivalent to ensuing six months of interest and principal repayment in respect of the facility apart from creation of MMRA during operation phase which is expected to provide financial cushion to MBCEPL.

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities

[Rating Outlook and Credit Watch]
[Project stage companies]
[Hybrid Annuity Model based road projects]
[Policy on Withdrawal of Ratings]

About the company

Montecarlo Bangalore Chennai Expressway P3P1 Private Limited (MBCEPL) was incorporated on September 30, 2021 as a special purpose vehicle (SPV) by Montecarlo Limited. MBCEPL has entered into 17 year concession agreement (CA) (including construction period of 730 days from appointed date) with National Highways Authority of India (NHAI, rated 'CARE AAA; Stable') to develop and operate the Project- Four lanning of Bangalore Chennai Expressway from Km 156.000 to Km 180.000 (Gudipala to Walajapet Section in the State of Andhra Pradesh and Tamil Nadu) under Bharatmala on Hybrid Annuity Mode (Phase III-Package I).

The bid project cost for the project is Rs.1188 crore as against NHAI project cost of Rs.928.34 crore. The project cost is envisaged at Rs.1148.78 crore to be funded through construction grant from NHAI of Rs.475.20 crore (excluding inflation), debt of Rs.538.73 crore and balance Rs.134.85 crore through promoter's contribution. The project received Appointed Date on May 30, 2022.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY2023 (UA)
Total Operating Income	NA	NA	NA
PBILDT	NA	NA	NA
PAT	NA	NA	NA
Overall Gearing (times)	NA	NA	NA
Interest Coverage (times)	NA	NA	NA

A: Audited; UA: Unaudited; NA: Not Applicable as the MBCEPLL is a project stage entity.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Please refer Annexure-4

Lender details: Please refer Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Term Loan – Long Term	-	-	-	December 25, 2037	538.73	CARE A; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Term Loan-Long Term	LT	538.73	CARE A; Stable	-	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:

Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Term Loan-Long Term	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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